



AN ASSOCIATION OF  
MONTANA HEALTH  
CARE PROVIDERS

Testimony on SB 118  
Before the Senate Finance and Claims Committee  
February 8, 2007  
by Bob Olsen, Vice President, MHA

For years, MHA has urged the Legislature to increase Medicaid payment levels to providers as providers' costs have increased. And, for years, for a variety of reasons, payment rates have slipped lower and lower as a percentage of the cost of providing treatment to Medicaid beneficiaries.

At one time, payment rates were roughly 93 percent of cost. Today, they are probably closer to 70 percent of costs.

Hospitals have no choice but to recover these unpaid Medicaid costs. And, their only recourse for doing so is to raise charges, which, in turn, has contributed to the steady increase in health insurance premiums.

In 2003, MHA agreed to a new course of action. Instead of relying on the state's general fund for Medicaid payment rate increases, MHA agreed to a utilization fee for hospital bed days. Using federal matching funds, these fee receipts enabled the state to come much closer to covering its Medicaid hospital costs.

This program, which was reauthorized in 2005 by overwhelming margins in both houses, has been hugely successful. It has enabled hospitals that provide a high percentage of Medicaid to come close to covering their Medicaid treatment costs. It also has enabled hospitals all over the state to get paid for some of the uncompensated care they provide.

SB 118 would extend the program for an additional four years. It also would adjust the fee rate to reflect projected cost increases in the Medicaid hospital program.

Without enactment of SB 118, the payment-to-cost gap will grow to more than \$90 million; that's \$90 million hospitals would have to collect by raising charges.

By eliminating cost-shifting in the Medicaid program, SB 118 should help stabilize health insurance rates in Montana.

Hospitals agreed to the utilization fee with the following understanding:

- The fees paid by hospitals would only be used to pay for hospital services.

- The fees would not be diverted to other programs.
- Hospitals would not pass the costs of the program onto other payers.

### **How the HUF Program Works**

There have been some questions about how the program actually works. Let me explain.

Hospitals provide services to Medicaid-eligible patients throughout the year, and throughout the year, hospitals are paid by Medicaid under the routine payment structure. The routine payment program relies on the general fund for the state's share of the payments.

Payments under the routine Medicaid program cover about 70 percent of hospitals' costs for treating Medicaid beneficiaries.

The hospital utilization fee program enables hospitals to recover these unpaid costs with a once-a-year payment from the state.

Each January, hospitals pay the utilization fee based upon the care they provided during the previous 12 months. In 2006, those fees amounted to about \$11 million. The taxable basis established for each hospital is their total inpatient days of care.

Within 30 days of receiving the tax payment, hospitals receive a supplemental payment from DPPHS to cover unpaid Medicaid costs. Each hospital's payment reflects the amount of care provided to Medicaid-eligible patients. Additional payments are made to reimburse hospitals for costs associated with providing care for uninsured patients.

Since the Department of Public Health and Human Services makes the supplemental payment within 30 days, the hospital is only at risk for the utilization fees paid for a brief amount of time.

This program is not like the hotel bed tax on accommodations. The patient is not asked to pay an additional charge tacked onto their inpatient stay.

Instead, hospitals budget for these payments and set their charges based on the assumption that they will receive them at the end of the year.

Hospitals finance their payment to the state in a variety of ways. Some hospitals have cash surpluses to tap while others must borrow the funds from local banks.

Finally, the additional funds this program generates play a significant role in stabilizing health insurance premiums. This is because hospitals don't have to recover unpaid Medicaid costs by raising their charges.

Some question where a small hospital like Northern Rockies Medical Center in Cut Bank gets the cash they need to pay the fee. (They borrowed it.) We think the more important question is what the hospital would have to do to obtain the \$400,000 a year Northern Rockies Medical Center receives from the program.

## Provisions of SB 118

- Section 1 updates the statutory reference to the appropriate Centers for Medicare & Medicaid Services (CMS) manual and removes the current termination dates.
- Section 2 establishes the utilization fee amount payable in each of the next 4 years. The fee level provides the funding needed to cost unpaid Medicaid costs for the entire year.

The fee amounts were set based upon projections established by the Medicaid staff at the Department of Public Health and Human Services. If the fees are determined to be too high or too low in the future we will adjust them through legislative action.

SB 118 eliminates the rulemaking authority for the Department of Revenue. This authority is no longer needed since the fee amount is established in the statute.

Finally, SB 118 strikes the language that bars a hospital from placing the fee on the patient's bill. Standard hospital bills don't have a place in which to impose a fee. This provision seemed to create confusion and drew some criticism last session, so we propose to eliminate it in SB 118.

- Section 3 merely strikes outdated provisions of state statute and makes other housekeeping changes.
- Section 4 of the bill eliminates the sunset provision currently in the statute.

### What Happens if Federal Rules Change?

Hospital fees used as state match are closely regulated by the federal government. For this reason, hospitals are very cautious about this program and were very careful in structuring the tax and distribution of funds.

This program is structured such that the funds are not included in the routine hospital payment system. If the federal rules change to end the program, the funding goes away.

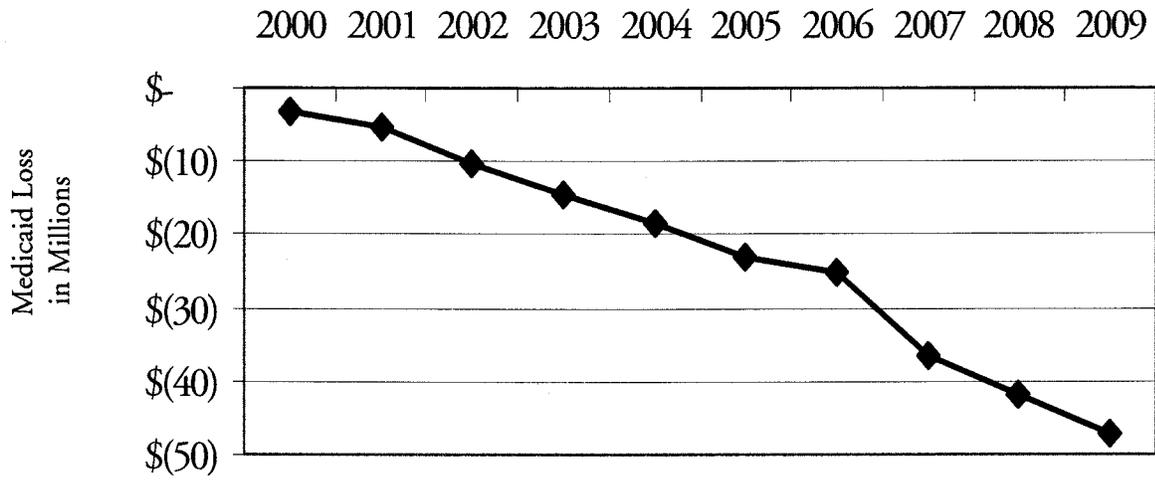
Because of the federal government's intense scrutiny of programs like Montana's, MHA has worked hard to ensure that the funds generated by the tax are used only to reimburse hospitals for services. In our view, diverting funds from hospital payments to other programs could put our entire program in jeopardy.

If the federal rules were to change, our program also will end. Otherwise, we would be left with the cost of the fee without any way to recover those fees from supplemental payments.

Montana's program Medicaid currently enjoys wide support from the hospitals. We ask that you support SB 118 in its current form.

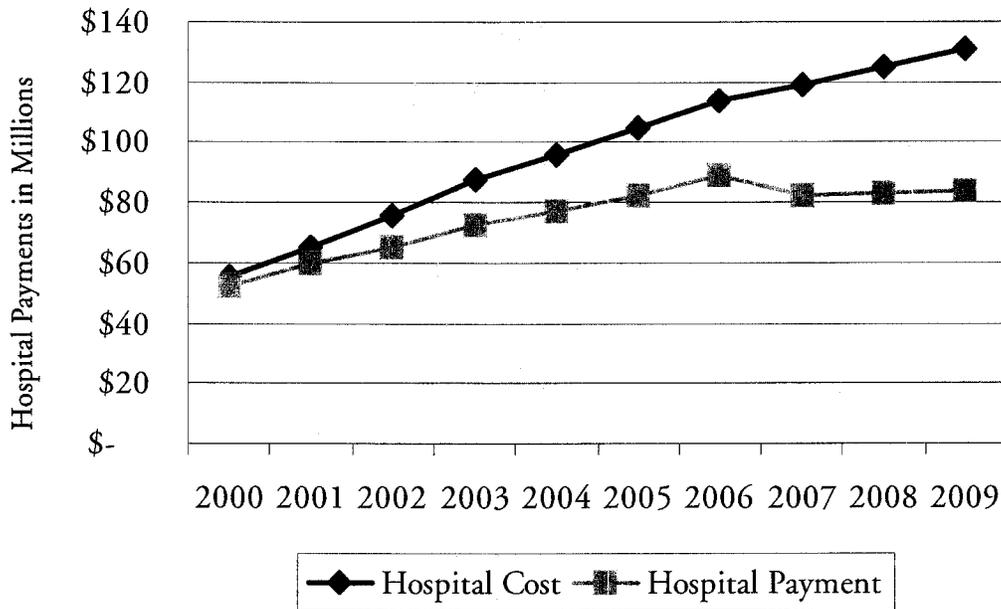
Thank you for your consideration.

## Unpaid Medicaid Costs

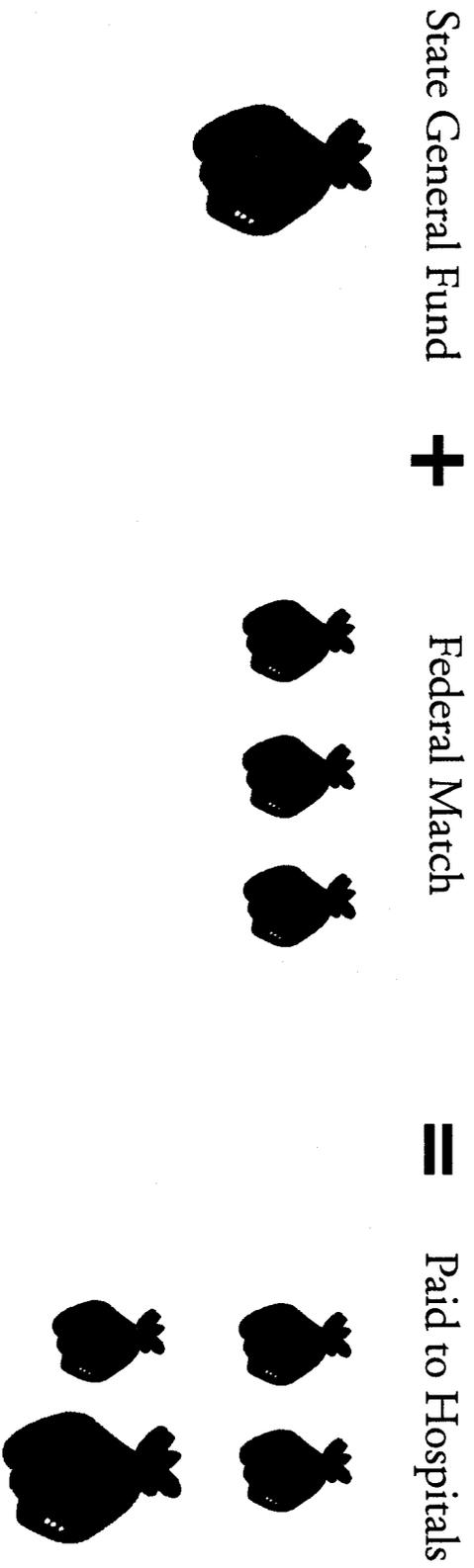


Loss on Medicaid Care

## Medicaid Payment Gap



# Traditional Medicaid Works Like This:



# Under SB 118, Hospital's provide the Match:

